

Price hikes on existing medicines account for the lion's share of higher drug costs

By [Ed Silverman @Pharmalot](#)

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Nati Harnik/AP

Amid intensifying debate over the rising cost of medicines, drug makers are often criticized for regularly raising prices, a tactic that sparks outrage given that the actual value of the drugs remains unchanged. Now, though, a new study of drugs' list prices has quantified the extent to which price hikes have not only raised costs in recent years, but have also outpaced inflation by leaps and bounds.

To wit, the costs of oral and injectable brand-name, outpatient drugs increased annually between 2008 and 2016 by 9 percent and 15 percent, respectively, and the price hikes were largely driven by existing drugs, such as insulin. When excluding new drugs — those that became available within three previous calendar years — annual costs rose by 8 percent and 16 percent for oral and injectable medicines. This was five to eight times the general rate of inflation in the same time period.

“A higher price for a new drug may make sense if it is safer or more effective or treats a disease you could not previously treat,” said Inmaculada Hernandez an assistant professor at the University of Pittsburgh School of Pharmacy and study co-author. “So, yes, there can be value, but the increases that we found for existing medicines do not reflect an improvement in value.”

The findings, which were published in [Health Affairs](#)¹, are likely to intensify the ongoing angst surrounding drug prices because the researchers believe this is the first study to quantify the extent to which price hikes for existing medicines contribute to the rising costs of outpatient prescription drugs over the past decade.

For that reason, the study may also place the pharmaceutical industry further on the defensive, especially since so many drug makers continue to boost prices on much of their product portfolios every six months. The trend continued this month, despite a halt last summer amid political bullying by President Trump, although price hikes have so far been fewer and lower than in January 2018.

At the same time, however, the study also found that increasing costs for specialty drugs were largely due to higher prices for newer treatments, not older existing ones. For oral and injectable specialty meds, costs increased 21 percent and 12.5 percent, respectively. And 71 percent and 52 percent of the increases were attributable to new drugs, according to the study.

Similarly, costs of oral and injectable generics rose by more than 4 percent and 7 percent, respectively, thanks to newer medicines. Between 2008 and 2016, numerous blockbuster brand-name drugs lost patent protection, ushering in a wave of new generics that raised costs, “even though competition inherent in the generic market should theoretically drive prices down,” the researchers wrote.

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Of course, the mix of drugs changes each year as new medicines are introduced, which can alter the reasons for rising costs from one year to the next. For instance, following the introduction of the new generation of hepatitis C treatments six years ago, the study noted that a subsequent increase in the overall costs of oral specialty drugs in 2014 was largely attributed to these latest medicines.

Nonetheless, costs increased faster than general inflation across all types of drugs, the study pointed out. “Even for oral generics, which had the smallest changes, annual increases were more than double rates of general inflation in the same time period. In the case of specialty drugs, average costs increased 13 times faster than general inflation,” the researchers wrote.

“These increases threaten the affordability of pharmaceutical benefits coverage by U.S. public payers and warrant consideration of more potent policies to control drug prices, in particular for government payers,” they warned.

[UPDATE: A spokeswoman for the Pharmaceutical Research & Manufacturers of America, the industry trade group, argued the study “provides a flawed and inaccurate portrayal of the U.S. marketplace for medicines,” because the authors used wholesale acquisition costs, “which does not capture rebates or other types of discounts. Due to negotiations in the market, retail medicine costs grew just 0.4 percent in 2017, the slowest rate since 2012, and net prices for brand medicines grew just 1.9 percent. That is because, on average, 40 percent of the list price of medicines is given as rebates or discounts... These rebates and discounts exceeded \$150 billion in 2017 alone and grow every year. However, these savings are often not shared with patients whose out-of-pocket costs continue to soar.”

The study authors, in fact, noted that, “after rebates are accounted for, the contribution of existing drugs may have been lower than we estimated. Additionally, because the magnitude of rebates has increased in the past decade, our findings likely overestimated cost increases for brand-name drugs. Nonetheless, list prices are commonly used to provide key directional information about medication prices, and patients without insurance or those with coinsurance or in high-deductible plans are exposed to those prices.”

Meanwhile, the Pharmaceutical Care Management Association, which represents pharmacy benefit managers, argued that rising prices are not correlated with rebates.]

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